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BRITISH COLUMBIA

Brief Presented to Plenary Session of the Federal-Provincial Conference

OTTAWA, OCTOBER, 1966

STATEMENT OF THE HONOURABLE W. A. C. BENNETT
Premier of British Columbia



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Statement of
THE HONOURABLE W. A. C. BENNETT
Premier of British Columbia

Present on behalf of the Province of British Columbia:

THE HONOURABLE W. A. C. BENNETT, *Premier and Minister of Finance.*

THE HONOURABLE R. W. BONNER, Q.C., *Attorney-General and
Minister of Commercial Transport.*

THE HONOURABLE L. R. PETERSON, Q.C., *Minister of Education and
Minister of Labour.*

G. S. BRYSON,
Deputy Minister of Finance.

DR. G. N. PERRY,
Deputy Minister of Education.

DR. G. D. KENNEDY,
Deputy Attorney-General.

E. R. RICKINSON,
Deputy Minister of Social Welfare.



Introduction

Mr. Prime Minister, British Columbia views this meeting, held on the eve of the celebration of 100 years of Canadian Confederation, as one of the most significant plenary sessions of this century. The results of our deliberations will largely determine the course the Canadian nation will take in its second century.

British Columbia is now celebrating its own centenary of the union of the British Crown Colonies of Vancouver Island and British Columbia. But while we turn our thoughts to and honour those of our pioneers who have contributed to the Canadian nation of today, let us not look to the past for solutions to the problems which now face us, but rather aim to develop new ideas to satisfy the requirements of the new century. With the ascendancy of Provincial responsibilities in the fields of education, health, welfare, and resource development, past fiscal arrangements are outmoded.

British Columbia has the capabilities and resources to greatly increase its growth in the future for the benefit of all Canadians. Its export-oriented and tourist economy prevents the Government of Canada from having a very substantial foreign trade deficit. Its high income level and rapid developmental programmes provide above average revenues for the Federal Government. But to realize British Columbia's fullest potential, it is necessary the Government of Canada provide fair and equitable treatment to the Province in fiscal considerations.

We meet today under uncertain conditions both at home and abroad. The current expansionary phase is exposed to pressures which could seriously limit further expansion and improvement in our

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standard of living if we do not plan carefully. The current tight-money situation, record high interest rates, and rapidly increasing costs of production impose real threats to our competitive position in world markets so essential to our continuing prosperity. Immediate problems, however should not cloud our vision for establishing proper fiscal relationships for the period ahead. We must plan for unhindered nation-wide economic development. We must develop programmes that will make fuller use of our natural resources, that will educate and train our people, and that will provide adequate power and transportation facilities for industry. Only in this way will we increase the standard of living, health, and welfare of the Canadian people. As has been emphasized in the past, under our Constitution most of these responsibilities lie with Provincial Governments.

British Columbia considers that fiscal arrangements and planning undertaken by the Government of Canada have not been fair in relation to all sectors of Canada. They have compounded rather than assisted the problem. The people of British Columbia are growing restless with the Federal attitude and, on their behalf, I will point to examples of unfair treatment of our Province by the Government of Canada.

Tax Occupancy

The fiscal responsibilities of the Provinces in the fields of education, health, welfare, and resource development have greatly accelerated in the last decade and will continue to do so over the foreseeable future. National economic and social policies instituted by the Government of Canada often increase Provincial involvement in these fields with little or no consideration of the means by which the additional service costs are to be met.

The Government of Canada, supported by the major share of the income taxes with their great productivity, can expect revenues to grow at a faster rate than expenditures. The Provinces, on the other hand, can expect an increasing shortfall in revenue in relation to expenditure.

It is becoming increasingly evident that under present tax-sharing arrangements the Provinces lack the fiscal ability or capacity to provide the revenues within the financial resources available to them. To meet the obligations of the Provinces to their citizens within the limits of a more equitable distribution of tax resources, it is essential Canada return an increased share of the direct-tax fields to the Provinces. British Columbia considers a National Government transfer over the next five-year period of a minimum additional 2 per cent per year of the Federal personal income tax and an additional 1 point per year of corporation taxable income, without the need for double taxation, would adjust some of the current imbalance in Federal-Provincial fiscal resources and expenditure responsibilities. In British Columbia's view this is a reasonable readjustment in tax resources to be made by the National Government at this time.

Equalization

British Columbia believes that equalization payments are not the answer to the problem of meeting Provincial Government fiscal deficiency in providing an accepted National level of government service. These unconditional payments to certain Provinces do not encourage fiscal responsibility. The tax revenues paid out as equalization payments should be used more advantageously.

British Columbia agrees a fiscal-need problem exists in certain areas of Canada. It believes, however, assistance should be given direct to the individual citizens involved, rather than through equalization payments to certain Provincial Governments. It is desirable to give people financial independence and the flexibility of action that comes with it. Assistance to those who are financially dependent should take a form which best contributes to this end. The Government of Canada should attack directly the problems which prevent low-income persons, wherever they may be located in Canada, from achieving income growth rates comparable to the average of the nation. I would point out that these persons are located in all Provinces. Programmes promoting growth and development of a sound industrial base should be intensified and strenuous efforts made to educate and train the labour force to use modern technological methods. Where recovery assistance is not economically feasible or justified, relocation of the people to areas of greater opportunity should be encouraged through housing assistance along with educational and vocational training, with pay, until the individual is properly settled. Through direct assistance to the individual citizen, the problem of income deficiency could be undertaken across the nation on an equitable basis, provide more efficient use of public moneys, and contribute to National harmony.

However, if the Government of Canada insists on retaining the equalization-grants system, consideration should be given to certain factors. British Columbia has emphasized at previous meetings the inadequacy of equalization formulæ which do not give weight to cost differentials between Provinces in providing like government services. I have also pointed out the high-cost nature of essential services in British Columbia. Our higher income reflects the higher cost nature of the British Columbia economy arising from our geographic location

and the adverse effect of National tariff policies. To say that equalization payments to a stated base enable a Province to provide a certain level of government service assumes the cost of services in a receiving Province is at an average level. The Dominion Bureau of Statistics reports, for example, of average weekly wages and salaries and public-school teachers median salaries, indicate some of the divergency in costs across our nation. Where lower costs exist, equalization of Provincial revenues may actually subsidize certain Provinces until they have a greater capacity to pay than the Provinces who do not receive equalization. The Government of Canada is too unrealistic in its zeal to equalize by revenue only and ignoring every other factor involved. If we must have equalization, it should not be at 100 per cent of revenue. I would suggest that equalization at 85 per cent of Provincial revenues would adequately compensate for this cost advantage. Equalization must not destroy the ambition of the recipient Provinces to improve their own position.

Mr. Prime Minister, I believe that equalization itself, through recognition of Provincial constitutional taxation rights and a fresh approach to this problem, can be eliminated. Any fiscal assistance deemed necessary by the Government of Canada for a war on poverty throughout the nation should not be an integral part of arrangements respecting direct taxes with the Provinces.

Shared-cost Programmes

Federal-Provincial shared-cost programmes have been an excellent device for establishing nation-wide levels of essential government services. In addition, they have encouraged regional projects which have had a National impact.

British Columbia sees National strength, not weakness, in shared-cost programmes. We urge the continuation and expansion of programmes which contribute to National growth. Increased sharing in the fields of higher education, sharing of costs of mental and tuberculosis patients under the *Hospital Insurance and Diagnostic Services Act* and larger participation in costs of new hospital construction should also be undertaken by the National Government.

We do, however, take exception to cancellation of agreements, such as the proposed ending by the Federal Government of the forestry agreement on March 31, 1967, without prior consultation or compensation to the Provinces.

Provincial Economic Development

The Province of British Columbia has progressed rapidly over the past decade, but its people have become highly resentful of the Government of Canada continuing to ignore their pleas for equal fiscal treatment. I have pointed out many times in the past that any prosperity enjoyed by British Columbia is more than shared with the rest of Canada. To place an additional burden on an industrious people by way of discriminatory treatment is certainly not in the National interest.

HYDRO-ELECTRIC POWER

In October, 1961, the Province commenced construction of the gigantic Peace River power project. In September, 1964, the vast hydro-electric and flood-control complex on the Columbia River was started. These projects, undertaken by the people of British Columbia, will produce large-scale economic benefits which will accrue to all Canadians.

As an equal partner in Confederation, British Columbia is entitled to the same fiscal considerations as received by other Provinces from the Government of Canada for power and flood-control projects. The Federal Government has provided to March, 1965, over \$77 million in subsidies to the South Saskatchewan River irrigation and power project, or 77.6 per cent of the expenditure, and is contracting to initially build and pay for the entire \$120 million transmission facilities from the Nelson River hydro-electric development in Manitoba. The Atlantic Development Board will pay \$20 million toward the construction cost of the New Brunswick Mactaquac hydro-power project, and will provide other forms of financial assistance in the Maritime Provinces through the Atlantic Provinces Power Development Programme. Most of the funds for Quebec's \$160 million nuclear power plant near Three Rivers will come from Ottawa, and Ontario receives \$70 million a year for nuclear development.

Mr. Prime Minister, British Columbia has received no Federal financial participation in its vast hydro-electric developments on the Peace and Columbia Rivers. In other words, it is constructing and financing these projects alone, although great benefits will accrue from its efforts for all of Canada. It has also been severely penalized by the imposition of the 11-per-cent Federal sales tax on building materials and machinery. This tax measure was introduced in the final stages of negotiations on the Columbia River project and was never considered in determination of the costs in the agreement. The Government of Canada negotiating representatives were aware this tax was not included in the project costs, and, therefore, it came as a great surprise to British Columbia to find these materials were not exempted for hydro construction purposes. This tax will add, with financial costs at current borrowing rates, approximately \$100 million to the total cost of the

Peace and Columbia River projects, to be borne by the people and businesses of British Columbia. British Columbia would stress it is completely unjustifiable that the Government of Canada should be enriched at the expense of Crown Provincial developments in British Columbia, while other Provinces enjoy substantial Federal subsidies and assistance on similar projects.

TRANS-CANADA HIGHWAY

The vital role of the Trans-Canada Highway in linking the Provinces of Canada has always been recognized by British Columbia. Although faced with per mile costs of construction almost double that in the rest of Canada and lower Federal percentage participation in the total cost, the Province has virtually completed work on the highway and has provided on many sections, and solely from Provincial funds, standards far superior to those required in the agreement.

British Columbia is disturbed by the refusal so far of the Federal Government to share the cost of construction of a major bridge over the Second Narrows at Vancouver. This refusal is contrary to the terms of the original agreement. The unrealized capital cost of the bridge at the time of forming part of the Trans-Canada Highway system and becoming shareable with Canada was \$21.8 million. British Columbia again requests payment by the Government of Canada of its share of the cost of this structure.

PACIFIC GREAT EASTERN RAILWAY

The Pacific Great Eastern Railway, as a developmental railroad, has been a key factor in the rapid growth and development of the resource-rich central and northern areas of British Columbia. The economic base of these regions has been greatly expanded with the unprecedented level of capital resource investment, such as in pulp,

petroleum and natural-gas industries, throughout the railway's service area. One-third of the railway's total freight income now originates from the north end of the line, and the proportion is anticipated to increase rapidly with new capital investments in this area. Between 1951 and 1963, the latest date information is available, the number of individual income taxable returns and the total income thereon in the Prince George region increased 168 and 282 per cent respectively, in the Peace River area the corresponding increases were 471 and 719 per cent; for all other areas of the Province the increases were 64 and 141 per cent. The population increase over the decade to 1966 of the City of Prince George was 125 per cent, and of the principal centres in the Peace River area, 128 per cent.

In 1955 a former Canadian Prime Minister, speaking in Parliament to the motion on paying a construction subsidy to the Pacific Great Eastern Railway on 50 miles of the northern extension from Prince George stated: " Our view that the present outlook does not justify a further extension of the line at this time would not, of course, prevent consideration of this matter again in a later year if the prospects for economic development then appear to be sufficiently promising to warrant a contribution toward the cost of constructing such an extension at that time." If " sufficiently promising economic development " is to be the guide-line for Government of Canada participation in development projects, surely the rapidly expanding economic base of the northern areas served by the railway, which is a fact now, not conjecture, justifies Federal sharing in the construction cost of this railroad at this time.

Numerous precedents exist of Federal sharing in construction of developmental railroads. But while in other projects the Federal con-

struction subsidies have been made during the period of construction, and not always to immediate economically justified projects, previous limited contributions toward the Pacific Great Eastern Railway have been “ after the fact,” so to speak, and after many submissions by the British Columbia Government. The people of British Columbia ask for the same treatment afforded Canadians of other Provinces in the past in respect of development railroads. The total Federal contribution outstanding at \$25,000 per mile on the unshared portion of the rail line is \$19,747,500.

The Pacific Great Eastern Railway is entitled to the same operating subsidies paid by the Government of Canada to the two National railways and regional railways, including United States-owned systems operating into Canada. The Provincial railway is paying the same wage rates as the major railways operating in British Columbia and is required to maintain low freight rates to remain competitive with these Federally subsidized railways. At the same time, the Provincial railway is making a substantial contribution to the level of economic activity in the Province which is highly beneficial to Federal Government revenues. In addition, the Pacific Great Eastern Railway, with its national and international rail connections, is sharing significantly in Canada’s favourable balance of international commodity trade. The people of British Columbia deserve to be treated equally with other Canadians and receive like subsidies for the Pacific Great Eastern Railway. Again, it is a question of only British Columbians having to “ go it alone ” in the construction and operation of a developmental railway.

Conclusion

Mr. Prime Minister, British Columbians believe Canada, united from shore to shore, has a great destiny. However, this will only be achieved if the Government of Canada realizes and acts on its responsibility to foster nation-wide economic development and, in so doing, treats all the regions of Canada equally and fairly. The cases of discrimination against British Columbia need immediate correction if its citizens are to fully appreciate and support Confederation. Even certain Liberal members of the Federal Parliament are advising British Columbia to apply to the Government of Canada for \$200,000,000, which, they say, is available for the asking. The truth is, British Columbia has been asking for fair treatment and assistance with certain projects for its citizens over the years. The Government of Canada, however, has failed to recognize our requests and, at the same time, has continued to favour the other Provinces with special treatment. It is time, Mr. Prime Minister, the Government of Canada stopped overlooking British Columbia in its fiscal relations.

